

# Natural Resource Fiscal Transitions in the West

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<https://headwaterseconomics.org>

# The 7 Deadly Sins of Public Finance

There's no sure-fire way to get fiscal policy right. But there are a few simple ways to get it disastrously wrong.

BY LIZ FARMER | JUNE 2014

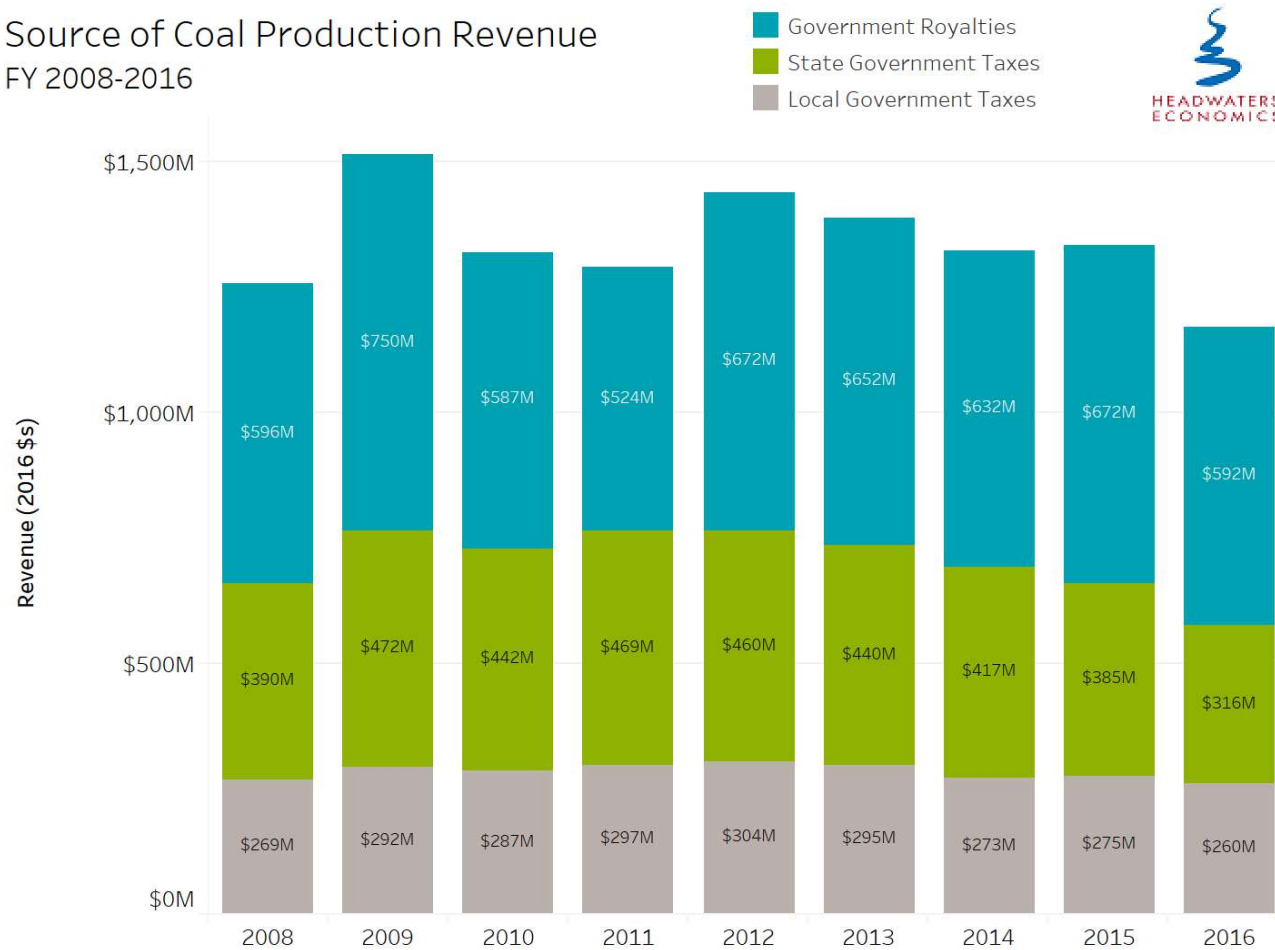


GettyImages.com, Shutterstock.com

Governing Magazine. 2014.  
<https://www.governing.com/finance101/gov-deadly-public-finance-sins.html>

# What Is Natural Resource Revenue?

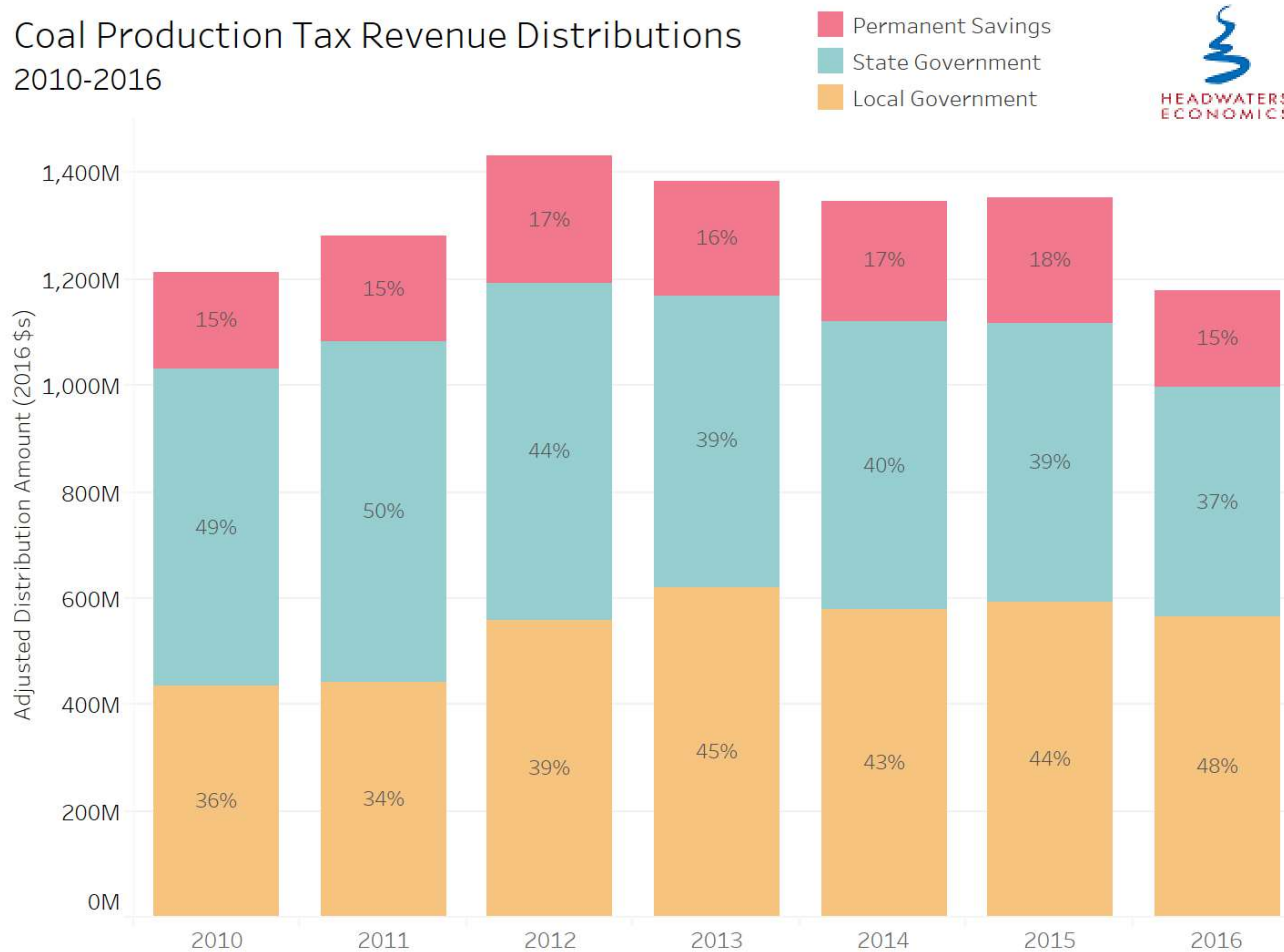
Source of Coal Production Revenue  
FY 2008-2016



Comparing Coal Fiscal Policies  
for Western States. 2017.  
<https://headwaterseconomics.org/energy/coal/coal-fiscal-policies/>

# How is Natural Resource Revenue Distributed?

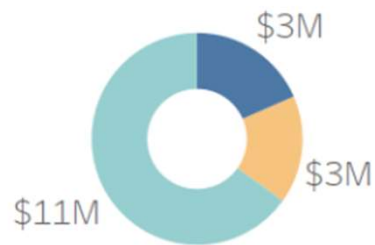
Coal Production Tax Revenue Distributions  
2010-2016



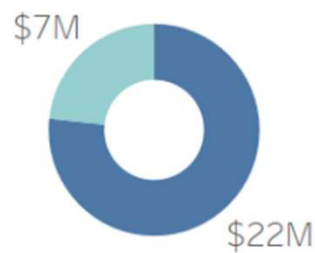
# How is Natural Resource Revenue Distributed?

## Coal Production Revenue Distributions to Local Governments FY 2016

■ Direct Distribution  
■ Direct Taxation  
■ Grants/Loans



Colorado



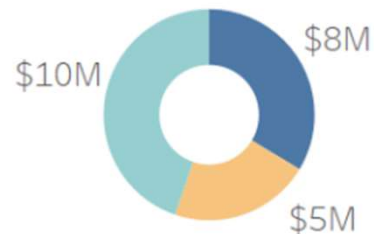
Montana



New Mexico



North Dakota



Utah



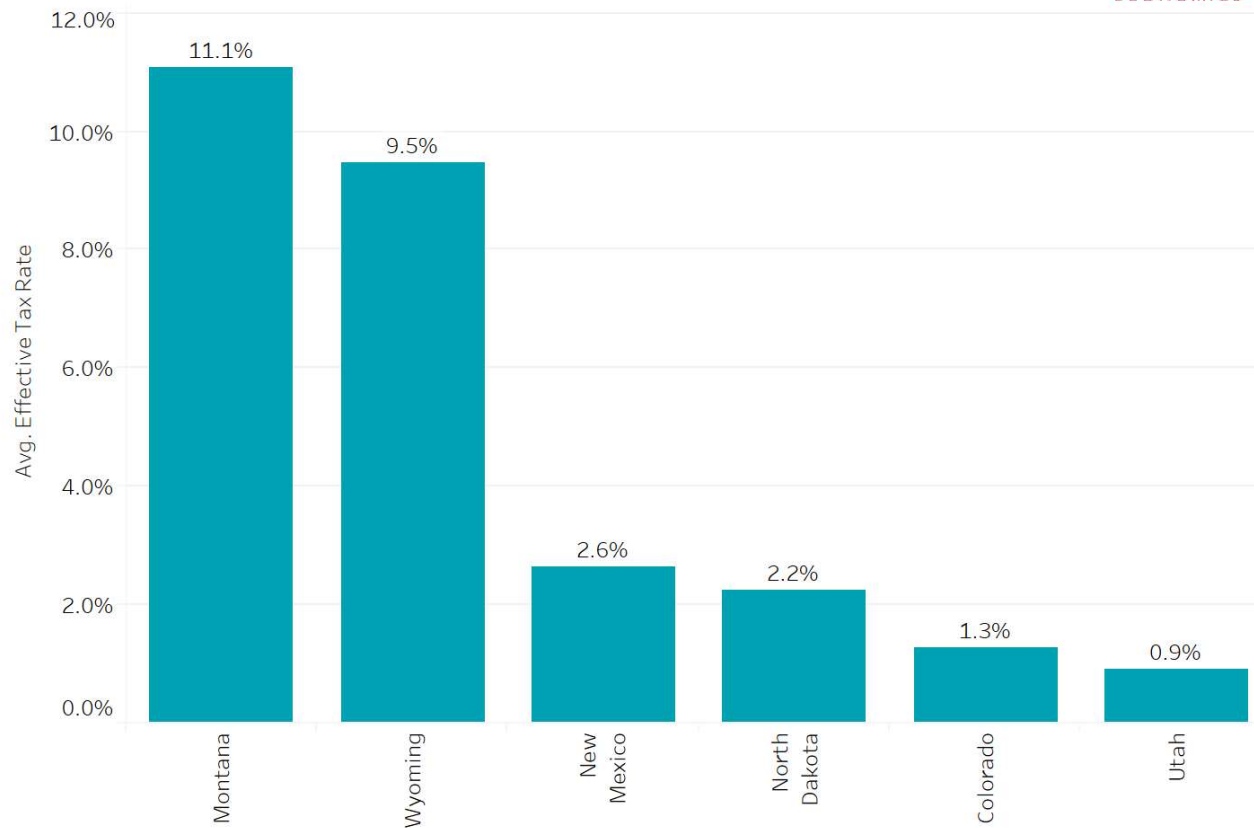
Wyoming

Comparing Coal Fiscal Policies for Western States. 2017.  
<https://headwaterseconomics.org/energy/coal/coal-fiscal-policies/>



# Coal Effective Production Tax Rates

Effective Coal Production Tax Rate  
FY 2013 – 2015



Comparing Coal Fiscal Policies  
for Western States. 2017.  
<https://headwaterseconomics.org/energy/coal/coal-fiscal-policies/>

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# Why Do State Fiscal Policies Differ?

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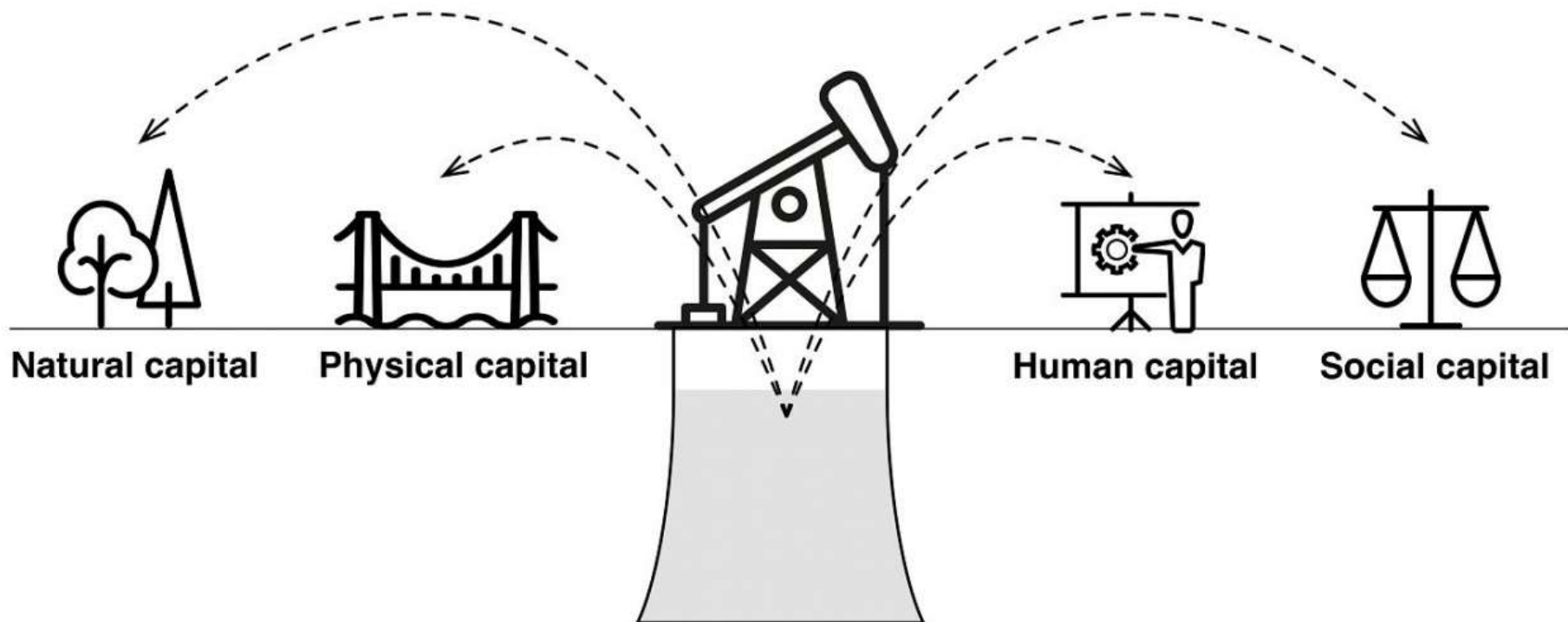
The more important coal is as an industry as a share of GDP the higher the tax rates and the more uniform the taxes.

In states where coal is produced only in a limited number of locations, local control of taxation is more likely.

Variations in the types of taxes reflect the state's philosophy of taxation.

# Theory of Natural Resource Fiscal Policy

Virtuous cycle of growth vs resource curse





# Dos and Don'ts of Natural Resource Fiscal Policy

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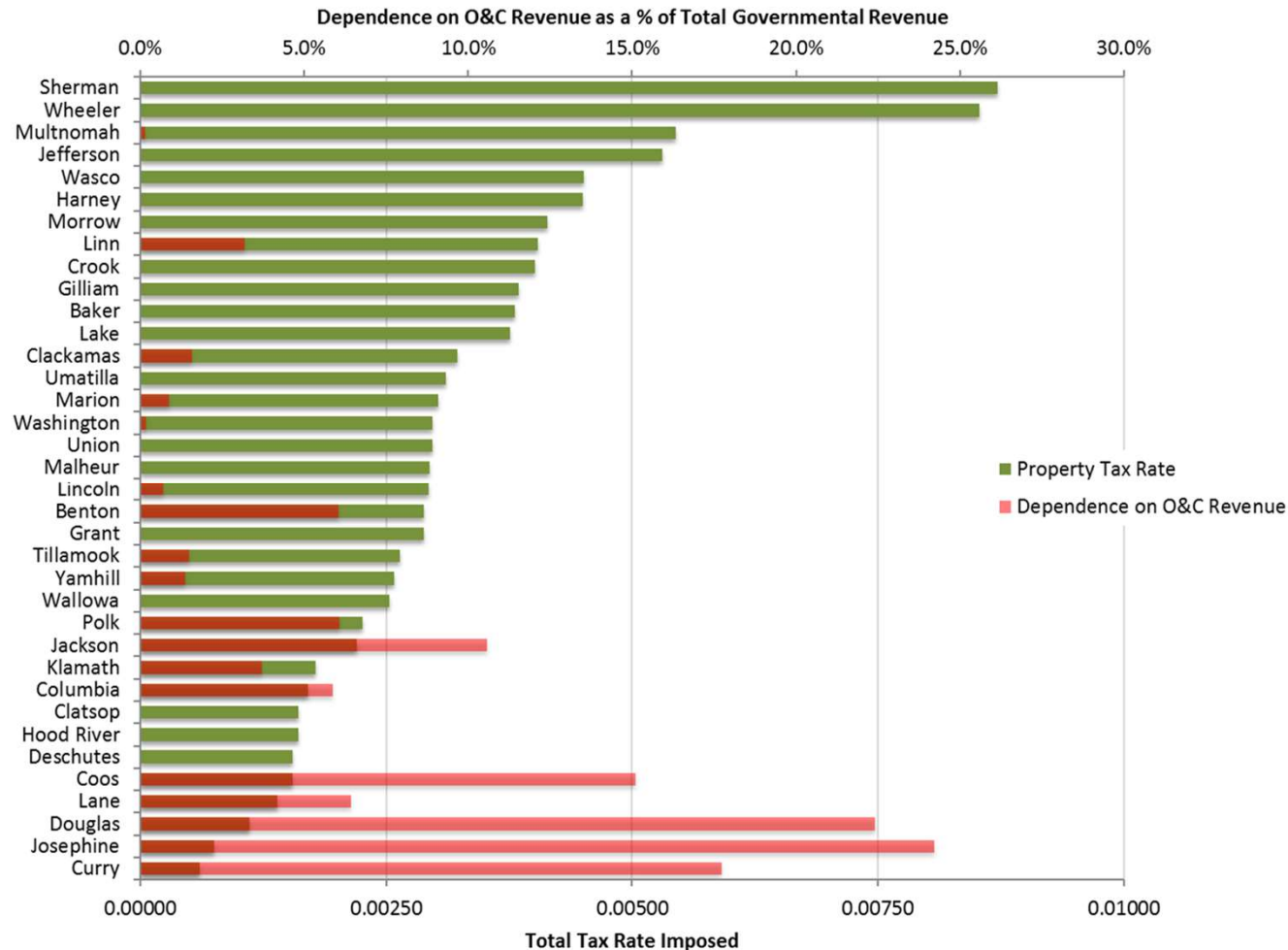
## Don'ts

- Don't use natural resource revenue to fund ongoing annual operations
- Don't use natural resource revenue to cut other taxes

## Dos

Solutions for Transitioning Coal-Dependent Communities. 2019.  
<https://headwaterseconomics.org/energy/coal/solutions-for-coal-communities/>

# OR Counties Use Timber Revenue for Tax Cuts



Endowing Federal Public Land Counties. 2018.  
<https://headwaterseconomics.org/public-lands/county-payments/endowing-federal-public-land-counties/>

<https://headwaterseconomics.org>

# OR Counties Face a Growing Fiscal Crisis

*Where Anti-Tax Fervor Means  
'All Services Will Cease'*



Sorting books at the library in Roseburg, Ore. A sign inside spells out its future in four words: Come June 1, "All services will cease." Ruth Fremson/The New York Times

"Most of these counties can't build themselves or develop themselves into solvency. Every new resident is a negative on the budget."

-- CW Smith, Jackson County, OR Commissioner

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# Dos and Don'ts of Natural Resource Fiscal Policy

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## Don'ts

- Don't use natural resource revenue to fund ongoing annual operations
- Don't use natural resource revenue to cut other taxes

## Dos

- Do stabilize revenue over time using permanent funds and long-term savings
- Do link revenue to long-term transition strategies
- Do maintain an equitable, stable and diversified general tax structure

# Dos and Don'ts of Natural Resource Fiscal Policy

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## Don'ts

- Don't restrict fiscal autonomy to collect and manage volatile natural resource revenue

## Dos

# UT Revenue Limits Require Tax Relief

*The Salt Lake Tribune*

## San Juan County, Utah's poorest and highest taxed, is headed for a tax hike



[State property tax revenue limits] meant the county was not able to collect any new revenue from the \$2.2 million in taxes generated in the first two years after the [Latigo wind farm] was built. Instead, property owners saw their taxes reduced; for example, a \$150,000 home in Monticello has seen a tax reduction of \$100 per year, **far more than the proposed increase.**

<https://www.sltrib.com/news/politics/2019/12/06/san-juan-county-utahs/>

<https://headwaterseconomics.org>



# Dos and Don'ts of Natural Resource Fiscal Policy

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## Don'ts

- Don't restrict fiscal autonomy to collect and manage volatile natural resource revenue

## Dos

- Do allow local governments to save natural resource revenue in unobligated funds
- Do allow local governments to budget natural resource revenue over multiple years

# Dos and Don'ts of Natural Resource Fiscal Policy

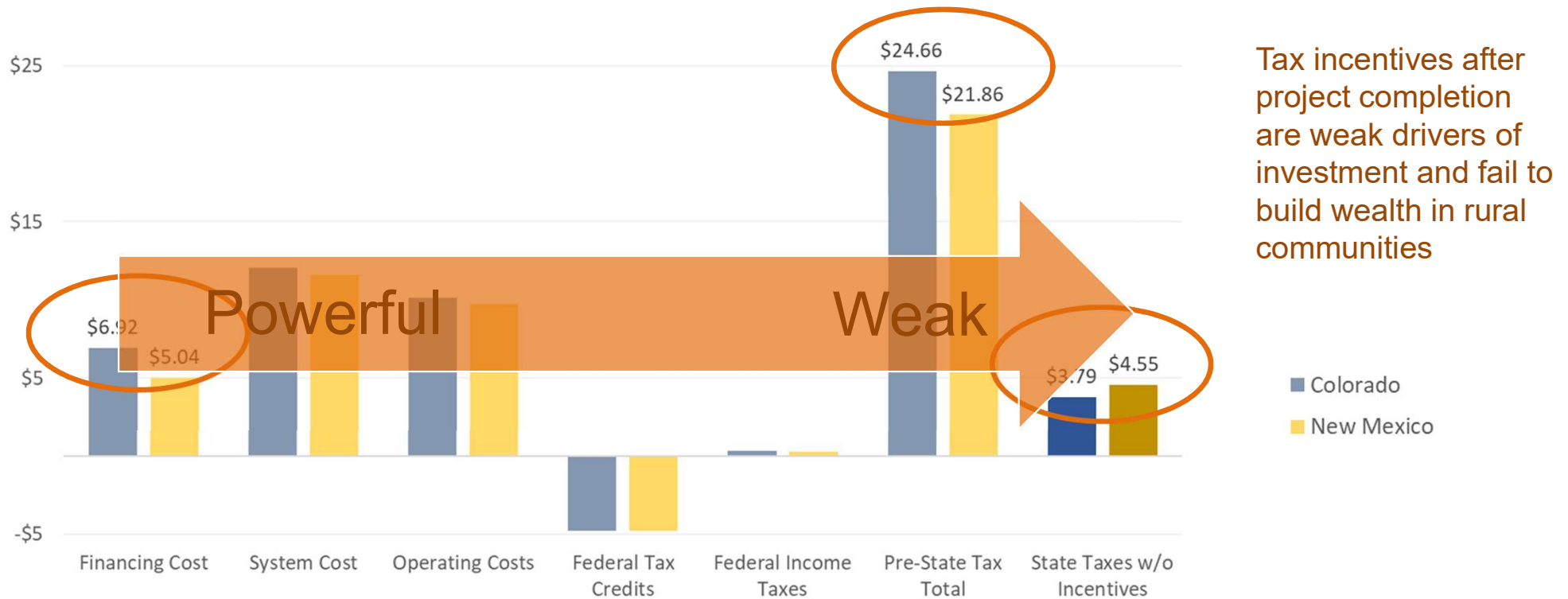
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## Don'ts

- Don't provide ineffective production tax breaks

## Dos

# State Wind Energy Tax Policy



Tax incentives after project completion are weak drivers of investment and fail to build wealth in rural communities

<https://headwaterseconomics.org>

University of Wyoming Wind Energy Cost Model Preliminary Results, Cook and Godby

# Dos and Don'ts of Natural Resource Fiscal Policy

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## Don'ts

- Don't provide ineffective production tax breaks

## Dos

- Do move incentives to more powerful technology innovation research, public-private partnerships and commercialization
- Do use creative public finance to lower private costs and increase public returns

# Dos and Don'ts of Natural Resource Fiscal Policy

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## Don'ts

- Don't incur debt financed with future natural resource revenues

## Dos

# North Dakota Local Government's Path Dependency

## A sports complex and the downside of debt in the oil patch

Mike Lee, E&E News reporter

*Energywire: Tuesday, November 1, 2016*



A view of Watford City's new high school football stadium. The town borrowed money to pay for the stadium and an adjacent sports complex because the local school district didn't have enough funds. The oil bust could make it tougher to pay off the loans. Photo courtesy of Watford City.

[https://www.eenews.net/special\\_reports/business/stories/1060045063](https://www.eenews.net/special_reports/business/stories/1060045063)

<https://headwaterseconomics.org>



# Dos and Don'ts of Natural Resource Fiscal Policy

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## Don'ts

- Don't separate revenue strategies from planning and economic development strategies

## Dos

- Do identify fiscal strategies that link revenue with strategies that bolster community economic resilience and the capacity of local institutions

Coal Communities Lack Strong Transition Plans. 2018.  
<https://headwaterseconomics.org/energy/coal/coal-communities-lack-strong-transition-plans/>

<https://headwaterseconomics.org>

Let me have just... one more oil boom..



1930



1980

I promise not to waste it.



2015

Greg Kearney, Wyofile, 2016

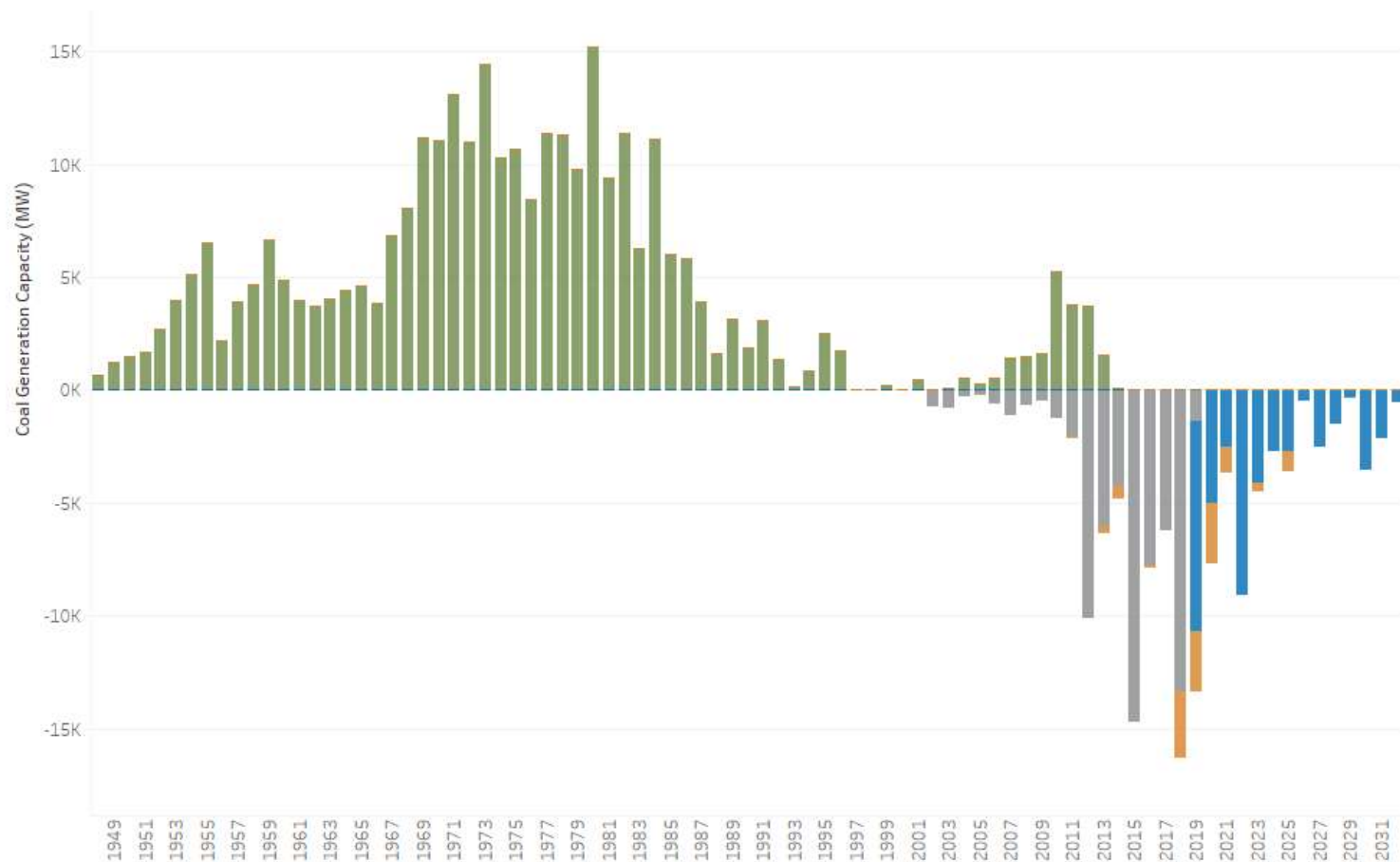
## State Action on the Dos

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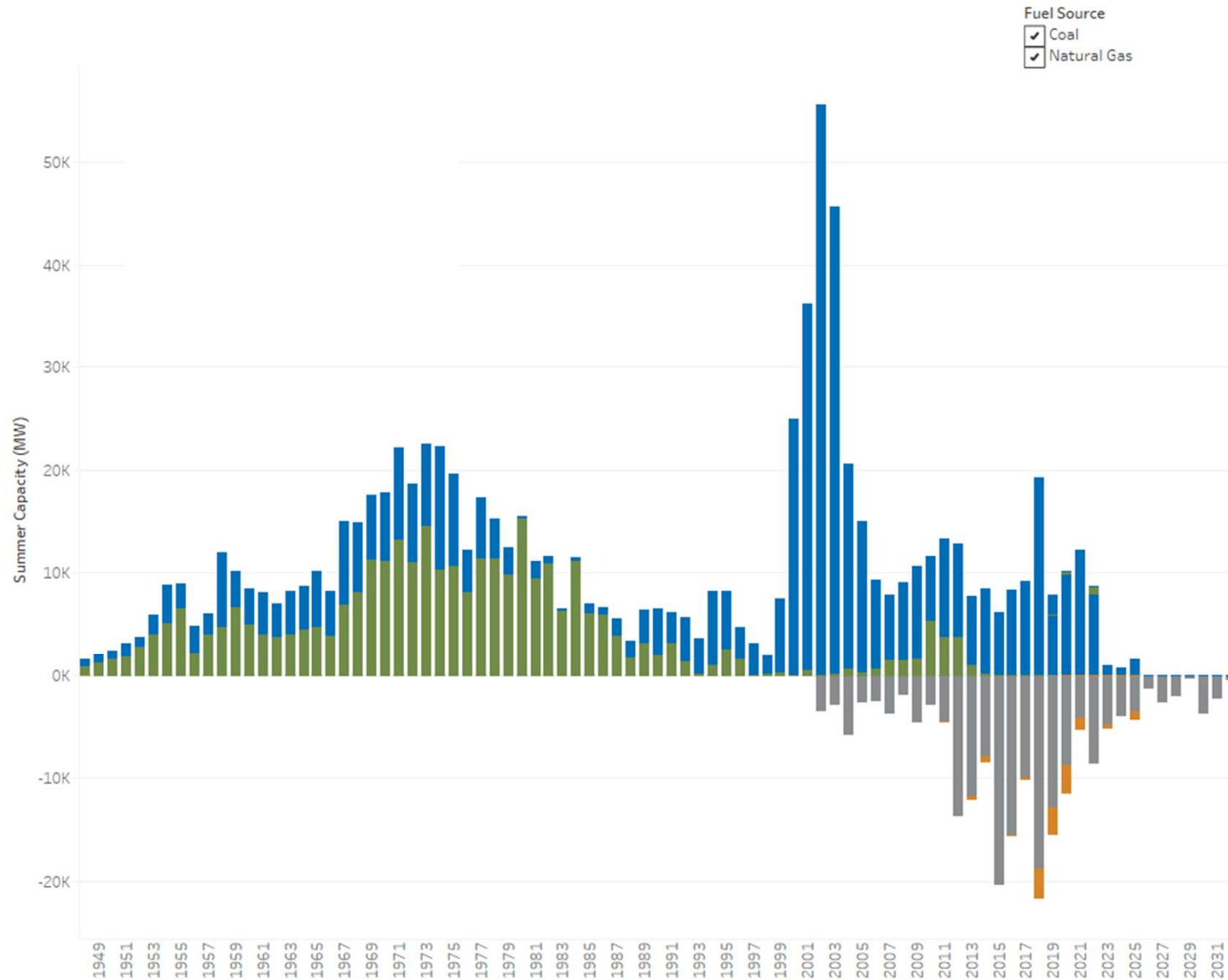
- Colorado Just Transition Office
- New Mexico Energy Transition Act
- Utah sales tax reform
- Utah Coal Country Strike Team
- Wyoming fiscal study
- U.S. Senate natural resource trust proposal

# Energy Transition Away From Coal

Coal Generation Capacity (MW), 1949-2031



Source: Headwaters Economics and J. Haggerty with data from US EIA, IEEFA and R. Godby, Univ. of Wyoming.

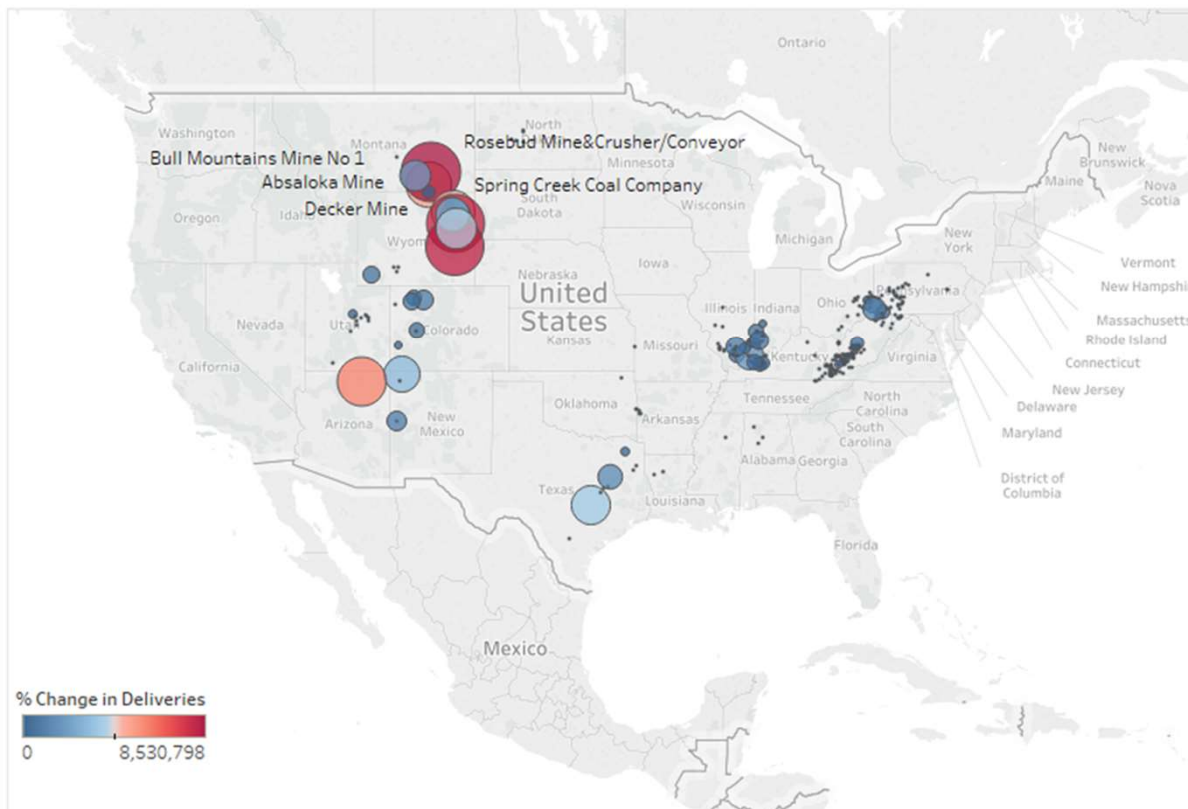


Source: Headwaters Economics and J. Haggerty with data from US EIA, IEEFA and R. Godby, Univ. of Wyoming.

# Energy Transition Affects Montana

## Mine Risk Assessment

Tons of Coal Delivered to Retiring Coal Fired Power Plants in 2016



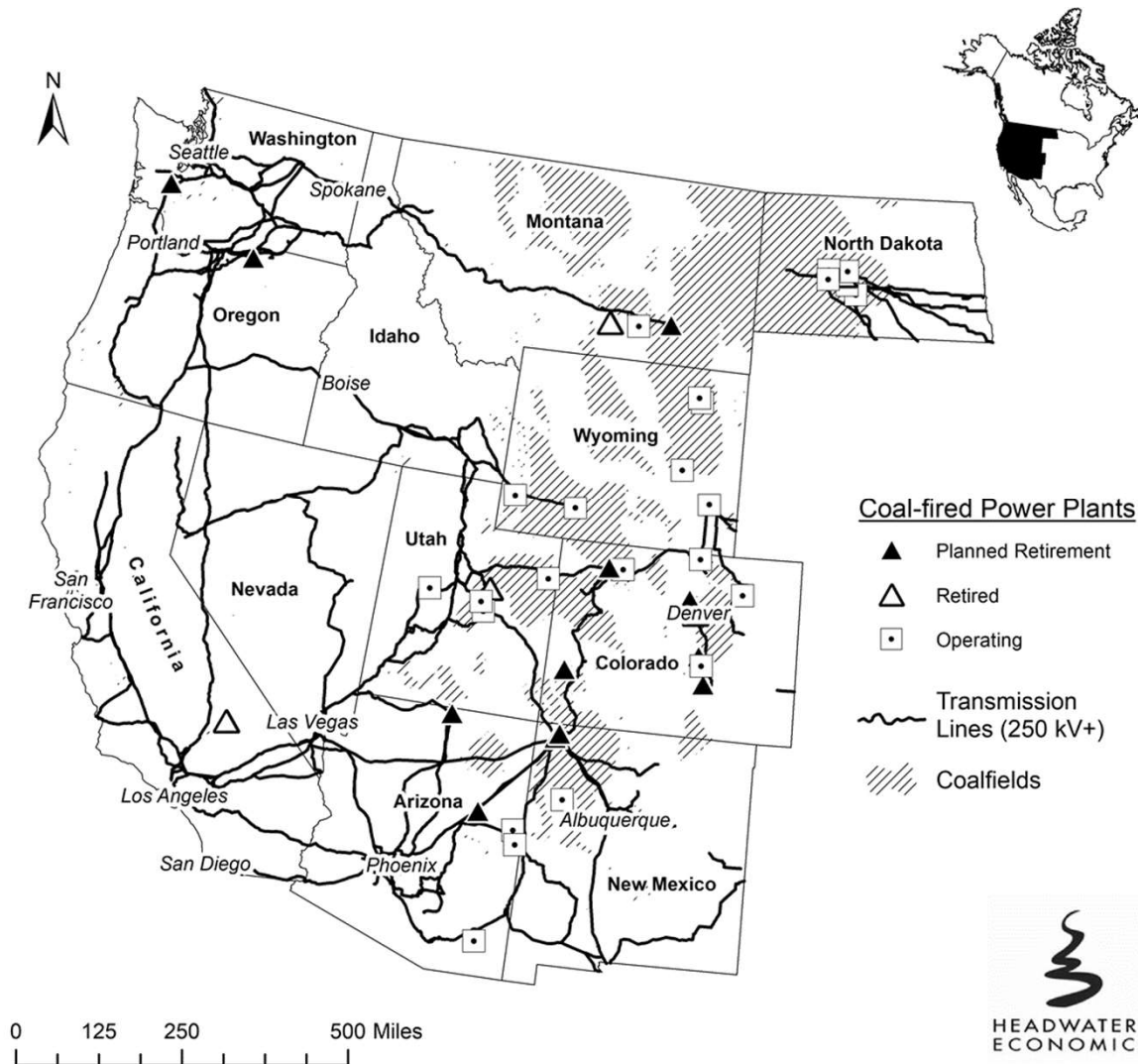
60% of 2016 deliveries from Big Horn County, Montana were to power plants scheduled to retire

(excludes coal exports)

Source: Headwaters Economics and J. Haggerty with data from US EIA, IEEFA and R. Godby, Univ. of Wyoming.



## Coal Electricity Infrastructure and Major Cities in the U.S. West



70s and 80s “Big Buildup”  
created most extensive  
energy system in the world

Required regional  
coordination

Western states set the terms

Coal Communities Lack Strong  
Transition Plans. 2018.  
<https://headwaterseconomics.org/energy/coal/coal-communities-lack-strong-transition-plans/>

<https://headwaterseconomics.org>



An aerial photograph of a river valley. In the foreground, a river flows through a town with many houses and trees showing autumn colors. A bridge crosses the river. In the background, there are rolling hills and mountains under a cloudy sky.

# Thank You

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# Montana

Table B-1: Montana Distribution of Coal Production Revenue, FY 2010-2016

Tax Name	Distribution Type	Distribution	Distribution Amount						
			2010	2011	2012	2013	2014	2015	2016
Severance Tax	State Government	Capitol Art Protection Trust Fund -	\$278,318	\$346,316	\$332,279	\$356,415	\$363,360	\$383,616	\$380,259
		Coal & Uranium Program (DEQ Mine Permitting and Res.	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
		General Fund	\$10,321,853	\$12,882,504	\$12,350,214	\$13,265,485	\$14,744,619	\$16,062,810	\$14,235,548
		Long Range Building Program Account	\$5,301,292	\$6,596,486	\$6,329,115	\$6,788,858	\$6,921,142	\$7,306,970	\$7,243,026
		Parks Trust Fund	\$561,053	\$698,128	\$669,831	\$718,487	\$732,488	\$773,321	\$766,554
		Renewable Resource Loan Debt Service Fund	\$419,686	\$522,222	\$501,055	\$537,451	\$547,924	\$578,468	\$573,406
		Local Impacts (Shared Account)	\$2,412,088	\$3,001,401	\$2,879,748	\$3,088,930	\$3,149,120	\$3,324,611	\$3,295,577
		Oil, Gas, and Coal Natural Resource Account (Coal Board)	\$2,544,427	\$3,188,302	\$3,059,072	\$3,281,281	\$2,129,440	\$1,765,861	\$3,434,905
		Permanent Savings	\$22,088,717	\$27,485,358	\$26,371,314	\$28,286,909	\$28,838,092	\$30,445,707	\$30,179,274
		Coal Tax Trust Fund (50%)	\$7,711,376	\$7,564,424	\$9,087,054	\$9,075,101	\$8,768,283	\$9,288,352	\$9,979,145
Gross Proceeds Tax	State Government	State Share	\$7,901,254	\$8,138,728	\$10,739,041	\$10,369,234	\$10,043,732	\$10,569,130	\$10,777,732
	Local Government	Local Share							
Resource Indemnity Tax	State Government	CERCLA Debt Service	\$216,423	\$204,192	\$196,970	\$222,945	\$212,768	\$158,137	\$188,996
		Environmental Quality Protection (25%)	\$183,736	\$280,348	\$287,645	\$304,925	\$291,439	\$393,281	\$270,595
		Groundwater Assessment	\$291,175	\$272,417	\$269,853	\$302,354	\$286,187	\$215,741	\$255,791
		Hazardous Waste/CERCLA (25%)	\$183,736	\$280,348	\$287,645	\$304,925	\$291,439	\$393,281	\$270,595
		Natural Resources Projects (50%)	\$367,472	\$560,696	\$575,291	\$609,851	\$582,878	\$786,561	\$541,190
State Royalty	State Government	Water Storage	\$119,334		\$110,595		\$117,290		\$104,833
		Lands Acquired - Public School					\$1,180	\$1,591	\$3,094
		Montana Tech					\$110,462	\$114,097	\$118,841
		MSU - Morrill Grant					\$60,768	\$103,321	\$57,105
		MSU - Second Grant					\$210,817	\$157,198	\$145,184
		MT Developmental Center					\$235	\$588	\$861
		MT State Hospital					\$235	\$588	\$861
		Public Buildings					\$111,088	\$127,596	\$251,876
		Public Land Trust - Navigable Rivers					\$372,714	\$344,071	\$450,677
		School for the Deaf and Blind					\$30,407	\$34,833	\$47,736
		State Normal School					\$110,097	\$129,713	\$66,199
		State Reform School					\$37,573	\$40,812	\$58,666
		The University of Montana					\$20,971	\$22,240	\$30,944
		Veterans Home					\$1,165	\$1,187	\$1,648
	Local Government	Common Schools					\$4,204,841	\$4,402,179	\$5,497,419
	Permanent Savings	Common Schools - Permanent					\$2,264,720	\$1,947,968	\$2,003,761
		Lands Acquired - Public School						\$37	\$1,506
		Montana Tech					\$26,299	\$57,346	\$7,406
		MSU - Morrill Grant					\$21,765	\$37,725	\$1,308
		MSU - Second Grant					\$50,421	\$109,438	\$8,454
		Public Land Trust - Navigable Rivers					\$196,200	\$89,957	\$78,042
		School for the Deaf and Blind					\$10,245	\$33,674	\$5,821
		State Normal School					\$4,299	\$9,152	\$94
		State Reform School					\$10,737	\$52,726	\$12,285
		The University of Montana					\$1,036	\$7	\$106
		Veterans Home						\$783	
	FML Royalty	General Fund	\$18,529,867	\$18,306,127	\$19,757,744	\$17,983,132	\$17,702,439	\$16,437,260	\$17,740,493
		County Allocation	\$6,176,622	\$6,102,042	\$6,585,915	\$5,994,377	\$5,900,813	\$5,479,187	\$5,913,498

## Montana

Table A-1: Montana Production Taxes and Royalty Payments, 2016

Tax/Royalty Name	Level of Government	Valuation Method	Tax/Royalty Rate	Deductions & Exemptions	Resource Quality & Cost Incentives	Production Incentives
Severance Tax	State	Value-Based	15% for surface coal greater than 7,000 BTU/pound, levied on the first arm's length contract prices.	First 20,000 tons is exempt. Royalty interest is deductible along with other taxes (Black Lung, severance, abandoned mine lands, and others).	The tax rate is lowered from 15% to 15% if less than 7,000 BTU/pound; 4% for underground coal greater than 7,000 BTU/pound and 3% of less than 7,000 BTU/pound. Mines producing less than 50,000 tons annually are exempt.	Tax rate is lowered to 5% for coal mined using auger technology if greater than 7,000 BTU/pound and 3.75% percent if less than 7,000 BTU/pound.
Gross Proceeds Tax	State	Value-Based	5% of gross proceeds.			New or expanding underground coal mines can be granted a local abatement by the county of up to one-half of the allowed rate, or 2.5% of the gross proceeds. The abatement, however, does not apply to the state share, and can be granted for up to 10 years of production.
Resource Indemnity Tax	State	Value-Based	0.4% of gross value.	First \$6,250 of tax liability is exempt. Governmental royalties are deductible.		
State Mineral Leasing Royalty	State	Value-Based	12.5% of gross value.			